

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Caldwell Parish School Board
Columbia, Louisiana

January 20, 1999



Investigative Audit

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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Caldwell Parish School Board

January 10, 1989



Investigative Audit
Office of the Legislative Auditor
State of Louisiana

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January 20, 1999

**MIL. MARK MAY, PRESIDENT,
AND MEMBERS OF THE CALDWELL
PARISH SCHOOL BOARD**
Columbia, Louisiana

Transmitted herewith is our investigative report on the Caldwell Parish School Board. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

This report presents our findings and recommendations as well as management's response. Copies of this report have been delivered to the Honorable Fay H. Evans, District Attorney for the Thirty-Seventh Judicial District of Louisiana, and others as required by state law.

Respectfully submitted,

Daniel G. Kyle, CPA, CFI
Legislative Auditor

SDP/DOP-AMH:dl

gk:mwp

Executive Summary

Investigative Audit Report Caldwell Parish School Board

The following summarizes the findings and recommendations as well as management's response that resulted from this investigation. Detailed information relating to the findings and recommendations may be found at the page number indicated. Management's response may be found at Attachment 1.

Former Office Manager Paid Himself Excess Compensation

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Findings: From July 1993 through October 1997, Ms. Marika Ann Fitzgerald, former office manager, paid herself \$34,320 that she was not authorized to receive. This was done through checks payable to T&A Service Company, Ann Fitzgerald (as a vendor), and B&T.A. and through excess payroll.

Recommendations: We recommend that the school board implement policies and procedures to ensure that school board employees cannot cause themselves to receive payment to which they are not entitled. These procedures should include an adequate separation of duties to ensure a system of checks and balances, a thorough review of all payments being made and vendors to which payments are made, and a periodic detailed review of the books and ledgers to ensure that payments are properly classified and recorded.

We also recommend that the District Attorney for the Thirty-Seventh Judicial District of Louisiana review this matter and take appropriate legal action, to include seeking restitution.

**Former Superintendent Received Excess Wages
and His Wages Were Not Properly Reported
to the Teachers' Retirement System**

(Page 5)

Finding: From July 1, 1988, through June 30, 1993, Mr. James Turner, former superintendent, was paid excess wages totaling \$58,124. In addition, \$143,642 of his wages were not properly reported to the Teachers' Retirement System, thereby allowing him to receive additional benefits totaling \$48,217.

Recommendations: We recommend that the school board implement policies and procedures to ensure that school board employees cannot cause themselves to receive payment to which they are not entitled. We recommend that the school board ensure that salaries are calculated on a consistent basis and report the actual earnings of retirees, including PIP and sales tax supplemental compensation, to the Teachers' Retirement System as required by law. We also recommend that the Teachers' Retirement System review this information and take appropriate action to recover excess benefits paid to Mr. Turner. We further recommend that the school board implement procedures to review all payments made to supervisory personnel. In addition, the school board should obtain an opinion from legal counsel as to the propriety of paying PIP compensation as a car expense.

We also recommend that the District Attorney for the Thirty-Seventh Judicial District of Louisiana review this matter and take appropriate legal action, to include seeking restitution.

Management's Response: The problems that ultimately led to this investigative audit were discovered through an independent audit ordered by the school board. When the school board learned of possible accounting irregularities, it authorized an expansion of the independent audit. This work was discontinued when the investigative audit began.

The two individuals discussed in this report are no longer associated with the school system. In addition, the school system has already implemented a number of operational changes designed to eliminate and/or avoid the kinds of accounting deficiencies noted in the audit report.

The school board has requested the District Attorney to pursue legal action against any individuals who may have violated the law. The school board has also employed private counsel to determine whether terminations are in order and to pursue recovery of any overpayments, which may have been made to staff members. Through private counsel, the school board has already filed a civil claim against the former office manager for recovery of overpayments referenced in the report. Legal action against the former superintendent is under consideration at this time.

The school system is not in a position at this time to verify the accuracy of the dollar amounts contained in the investigative audit.

Background and Methodology

The Caldwell Parish School Board, located in Columbia, Louisiana, has ten members. The board operates four elementary schools, one junior high school, one high school, and one pre-school.

The school board's audit report for the year ended June 30, 1997, included several findings regarding payments and contracts awarded to school board employees. Mr. Bry H. Ivins, District Attorney for the Thirty-Seventh Judicial District, requested the Legislative Auditor to conduct an investigation of the matters included in the audit report. This investigative audit was performed to determine the propriety of the matters included in the school board's audit report and other information that came to our attention.

Our procedures consisted of (1) interviewing employees and officials of the school board; (2) interviewing other persons as appropriate; (3) examining selected documents and records of the school board; (4) making inquiries and performing tests to the extent we considered necessary to achieve our purpose; and (5) reviewing applicable Louisiana law.

The result of our investigative audit is the findings and recommendations herein.

Findings and Recommendations

FORMER OFFICE MANAGER PAID HERSELF EXCESS COMPENSATION

From July 1993 through October 1993, Ms. Martha Ann Fitzgerald, former office manager, paid herself \$39,328 that she was not authorized to receive. This was done through checks payable to T&A Service Company, Ann Fitzgerald (as a vendor), and BATA and through extra payroll.

Ms. Fitzgerald became the Office Manager for the Caldwell Parish School Board in 1990. Her duties, among other things, included bookkeeping and preparing vendor and payroll checks. During the period July 1993 through October 1993, Ms. Fitzgerald received school board funds that she was not entitled to receive. This was done through payments to T&A Service Company, Ann Fitzgerald, and BATA and through extra payroll.

T&A Service Company

Ms. Fitzgerald received \$10,025 that she was not entitled to receive through payments to T&A Services Company (T&A), a name under which Ms. Fitzgerald chose to be paid for extra work. According to Mr. James Turner, former superintendent, during the March 1996 school board meeting, the board agreed to compensate Ms. Fitzgerald an additional \$600 per month for extra Title I bookkeeping services she was performing. Mr. Turner and several board members stated that the board reached the agreement in executive session and did not pass a formal resolution. We found no written evidence of this agreement in the board minutes. According to Ms. Fitzgerald, T&A was the short name for Terry Ann (her daughter) and Ann (herself).

During April 1996, Ms. Fitzgerald paid T&A two checks totaling \$5,400 for the period July 1995 through March 1996 (2400 x 2 months). Beginning in April and continuing through August 1996, she submitted monthly invoices and paid T&A \$600 per month. However, in September 1996, Ms. Fitzgerald began paying T&A two \$600 checks per month; in January 1997, she paid T&A three \$600 checks; and in May 1997, Ms. Fitzgerald paid T&A three checks totaling \$3,480. In total, during the period April 1996 through October 1997, Ms. Fitzgerald paid herself, through T&A, \$28,825. Ms. Fitzgerald recorded these payments to several school board accounts including office expense, materials and supplies, supervisor travel, athletic expense, pupil appraisal, Extra Staff, and special education black grant. Even if the board did authorize Ms. Fitzgerald to receive an extra \$600 per month (though there is no written evidence of this agreement in the board minutes), Ms. Fitzgerald should have received, at most, \$16,800 in additional pay. Therefore, Ms. Fitzgerald paid herself at least \$10,025 more than she was entitled to receive. No documentation was located in the school board records to support these extra payments.

According to Mr. Turner, he was aware that T&A was a trade name used by Ms. Fitzgerald. Mr. Turner did not know that Ms. Fitzgerald paid herself more than \$600 per month. Several board members informed us that they did not know of Ms. Fitzgerald's association with T&A.

Ms. Fitzgerald informed us that it was her understanding that she was to receive the \$600 per month beginning with July 1995 for Title I bookkeeping work that she performed during normal work hours. She stated that the amounts she paid herself in excess of \$600 per month were for work she performed after normal work hours. According to Ms. Fitzgerald, she estimated the number of extra hours that she worked and paid herself \$15 per hour. Ms. Fitzgerald did not maintain time sheets to report the hours for which she was paid.

Ann Fitzgerald

Ms. Fitzgerald paid herself \$2,375 more than she was authorized to receive through reader checks made payable to Ann Fitzgerald. According to Mr. Turner, he authorized Ms. Fitzgerald to receive an additional compensation of \$250 per month to be paid from the LEARN grant. This additional compensation was for Ms. Fitzgerald to serve as the bookkeeper/fiscal agent for LEARN programs at Northeast Louisiana University, Grambling State University, and Louisiana Tech.

Ms. Fitzgerald began making payments to herself during September 1996 through reader checks payable to Ann Fitzgerald. The first payment was \$250 and the supporting documentation indicates it was for July through September 1996 at \$240 per month. Ms. Fitzgerald paid herself \$240 during October; however, beginning in November 1996, Ms. Fitzgerald began paying herself multiple checks totaling in excess of \$240. In total, between September 1996 and June 1997, Ms. Fitzgerald paid herself \$3,255 in this manner. Assuming that she was authorized to receive \$240 per month in additional pay, the most she should have received during this period was \$2,880. Therefore, Ms. Fitzgerald paid herself at least \$2,375 more than she was authorized to receive.

According to Ms. Fitzgerald, she estimated the extra hours that she worked and paid herself \$15 for each hour. Mr. Turner stated that he was not aware that she paid herself in excess of the \$250 [sic] per month.

BATA

Ms. Fitzgerald received \$9,165 that she was not entitled to receive through BATA, another name under which she chose to be paid. (BATA was short name for Billy, her husband; Ann; and Terri Ann, her daughter.) From July 1996 through June 1997, Ms. Fitzgerald made checks payable to BATA totaling \$9,165. According to Ms. Fitzgerald, the payments to BATA were for bookkeeping services she provided for several programs including:

- High Schools That Work
- Early Model Childhood
- 8G Superior Textbooks
- Student Enhancement Block Grant
- Innovative Professional Development
- Starting Points
- Project Independence
- JTPA
- Governor's Drug-Free Program
- Lieutenant Governor's Grant
- Even Start
- Title II
- Title VI
- Decentralized Arts
- Teacher Assessment

According to written statements provided, Mr. Turner was unaware of the existence of BATA until shortly before his retirement on June 30, 1997. Mr. Turner was not aware of payments made to Ms. Fitzgerald through BATA until the school board's auditor reported it to him. Mr. Turner was only aware of the \$900 per month additional compensation approved for Title I bookkeeping, and the \$238 [sic] she was to receive for the university's LEARN program.

Ms. Fitzgerald stated that Mr. Turner instructed her to pay herself for extra services by vendor checks and that Mr. Turner told her to set up BATA and T&A. Ms. Fitzgerald charged the payments to BATA to several school board accounts including office expense, Even Start, Horsebound Instruction, pupil appraisal, travel, miscellaneous, and materials and supplies.

Written Contracts

Ms. Fitzgerald provided contracts to the school board's independent auditor to support the payments made to T&A, BATA, and Ann Fitzgerald. Ms. Fitzgerald provided three contracts between the school board and T&A Services, BATA, and Ann Fitzgerald for \$13,000, \$8,000, and \$2,800, respectively. Each contract was for the term July 1996 through June 1997, and was signed by Ms. Fitzgerald and Mr. Turner, and was dated June 23, 1997.

According to Mr. Turner, Ms. Fitzgerald brought him the contract between "Ann Fitzgerald" and the school board in October or November of 1997, after he was no longer superintendent, and told him that "the auditor wants a written contract." Mr. Turner signed this contract believing it memorialized, in writing, the agreement reached previously. Mr. Turner does not recall discussing or signing the T&A and BATA contracts. According to Mr. Turner, he may have

signed these contracts in error under the belief they were duplicates of the original copy of the contract with "Ann Fitzgerald."

Ms. Fitzgerald informed us that she prepared the contracts and had them signed on November 4, 1997, to satisfy the school board's machine. According to Ms. Fitzgerald, Ms. Turner instructed her to create and backdate the contracts.

Excess Payroll

Ms. Fitzgerald also received \$17,735 through payroll checks that she was not entitled to receive. As bookkeeper, Ms. Fitzgerald's duties included the preparation of school board payroll. Her salary was established and authorized by the school board. Beginning in July 1993, Ms. Fitzgerald was authorized to receive an annual salary of \$38,863. In July 1995, her annual salary was increased to \$27,154. However, from July 1993 through October 1997, Ms. Fitzgerald paid herself salary payments amounting to \$17,735 in excess of that authorized by the school board.

Internal Revenue Service Form 1099 Not Filed

Title 26, United States Code, Section 6041, *et seq.*, requires that an employer file a Form 1099 for each person who receives non-employee payments of \$600 or more during the tax year. The school board did not file an IRS Form 1099 for the amounts paid to T&A, Ann Fitzgerald, and BATA.

Ms. Fitzgerald's Explanation

Ms. Fitzgerald did not maintain time cards or any other records of her hours worked. She stated that all of the additional payments were estimated as to what work was actually performed, how many hours devoted to each area, and how many total hours actually worked. She estimated that she usually worked 25 to 30 hours extra each week. For each period, she would estimate how many extra hours she worked multiplied by \$15 per hour to determine the total amount of the extra payments. According to Ms. Fitzgerald, she arbitrarily divided the extra payments among her various vendor accounts and payroll. Ms. Fitzgerald stated that it became impossible to separate the extra work that she was performing as Title I, LEARN, or other programs. Ms. Fitzgerald stated that the reason the payments were coded to several unrelated accounts was keypunch errors.

By making payments to herself that she was not entitled to receive, Ms. Fitzgerald may have violated one or more of the following laws:

- R.S. 14:63, Theft
- R.S. 14:72, Forgery
- R.S. 14:134, Malfeasance in Office
- R.S. 14:138, Payroll Fraud

- R.S. 14:148, Public Contract Fraud
- R.S. 40:1113, Prohibited Contracts
- R.S. 40:1441, Obligation Not to Misappropriate
- Title 26, USC §6943, Statute Regarding Payments of Remuneration for Services

By approving Mr. Fitzgerald's additional compensation during an executive session, Mr. Turner and certain members of the school board may have violated provisions of R.S. 40:4.1 *et seq.*, the Open Meetings Law. The Open Meetings Law provides that every meeting of any public body shall be open to the public. A public body may hold executive sessions under certain situations; however, no final or binding action may be taken.

We recommend that the school board implement policies and procedures to ensure that school board employees cannot cause themselves to receive payment in which they are not entitled. These procedures should include an adequate separation of duties to ensure a system of checks and balances, a thorough review of all payments being made and vendors to which payments are made, and a periodic detailed review of the books and ledgers to ensure that payments are properly classified and recorded. In addition, the school board should take final and binding action only during meetings that are open to the public and all votes made by members of the school board should be recorded in the school board's official written minutes and made available for public inspection.

We also recommend that the District Attorney for the Thirty-Seventh Judicial District of Louisiana review this matter and take appropriate legal action, to include seeking restitution.

FORMER SUPERINTENDENT RECEIVED EXCESS WAGES AND HIS WAGES WERE NOT PROPERLY REPORTED TO THE TEACHERS' RETIREMENT SYSTEM

From July 1, 1988, through June 30, 1997, Mr. James Turner, former superintendent, was paid excess wages totaling \$78,124. In addition, \$143,642 of his wages was not properly reported to the Teachers' Retirement System, thereby allowing him to receive additional benefits totaling \$48,217.

FORMER SUPERINTENDENT RECEIVED EXCESS COMPENSATION

From July 1, 1988, through June 30, 1997, Mr. James Turner received excess payments totaling \$78,124. These excess payments were the result of car/travel expense and contract payments that he was not entitled to receive and the incorrect computation of his salary. Mr. Turner received salary and other payments totaling \$366,594; however, he was

authorized by the school board to receive only \$285,432. As a result, Mr. Turner received \$78,124 that he was not authorized to receive as follows:

Fiscal Year	Salary*	Craftsmen Expense	Vendor Payments	Total	Authorized Salary*	Excess
1986-88	\$48,711.18	\$3,887.00		\$52,598.18	\$48,711.18	\$3,887.00
1988-89	48,711.18	3,887.00		52,598.18	48,711.18	3,887.00
1989-91	38,211.20	5,094.50		43,305.70	35,514.00	8,211.80
1991-92	38,851.20	5,008.00		43,859.20	35,817.00	8,774.20
1992-93	38,851.20	5,438.00		44,289.20	35,817.00	11,204.20
1993-94	38,958.72	5,558.00		44,516.72	35,958.00	11,324.23
1994-95	38,891.20	5,608.01		44,499.21	35,817.00	8,714.21
1995-96	38,802.48	5,658.00		44,460.48	35,918.20	8,834.25
1996-97	41,878.20	5,858.00	\$5,858.00	53,594.20	35,701.00	15,208.70
Total	<u>\$306,237.48</u>	<u>\$54,258.50</u>	<u>\$5,858.00</u>	<u>\$366,354.07</u>	<u>\$288,432.48</u>	<u>\$78,123.59</u>

*Includes sales tax supplement.

Mr. Turner retired from his job as the Superintendent of Caldwell Parish School Board effective June 30, 1988. The board retired Mr. Turner as superintendent on July 1, 1988. Mr. Turner was to receive one-half of his previous salary and continue to receive a supplement derived from a local sales tax. The board also resolved that Mr. Turner would be paid no travel expense. Furthermore, the board resolved that any Professional Improvement Program (PIP) compensation that he was due from the state would be designated as travel expense. (PIP compensation is paid by the Louisiana Department of Education to the local school board who in turn compensates the recipient employee.) Before his retirement, Mr. Turner received \$3,531 sales tax supplement and \$3,563 PIP compensation annually.

Car/Travel Expense

From July 1, 1988, through June 30, 1990, Mr. Turner was paid one-half of his former salary plus his sales tax supplement. In addition, he received an amount equal to the PIP compensation that he was receiving at the time of his retirement. This was designated as travel expense. However, as of his retirement, Mr. Turner was not eligible for PIP compensation.

The Louisiana Department of Education ruled that Mr. Turner was no longer eligible to receive the PIP supplement after his retirement. On April 2, 1991, Mr. Turner appealed the ruling. In a letter dated June 17, 1991, Ms. Betty Hill, PIP Hearing Officer, denied the appeal. In addition to denying the appeal, Ms. Hill also stated, "I might also add that, under no circumstances, could the PIP increment be paid to you and designated as travel expense." Despite the ruling, Mr. Turner continued receiving an amount equal to his PIP increment as a car/travel expense through June 30, 1997. Since Mr. Turner was not eligible for PIP compensation, the school board received no reimbursement from the Department of Education.

The school board's resolutions were that (1) he was to receive no travel expenses and (2) any PIP compensation received from the state would be designated as travel expense. After his retirement, Mr. Turner did not receive any PIP payments from the state; therefore, he was not entitled to continue receiving the amounts designated as travel expense.

Incorrect Computation of Salary

Effective July 1, 1996, the school board changed Mr. Turner's compensation. When establishing Mr. Turner's salary, the school board resolved that it would be based on a nine-month teacher's salary converted to a twelve-month teacher's salary. This is consistent with other administrators, who work a twelve-month year and are entitled to receive twelve-months of this base salary. However, Mr. Turner's salary was actually computed using thirteen-months rather than twelve-months. From July 1996 through June 1997, Mr. Turner was overpaid \$13,367 because of the higher conversion ratio.

In addition, on June 15, 1997, Mr. Turner received an \$832 check from the school board, which represented a gross payment of \$1,118. The check was coded \$508 to superintendent's salary and \$610 to the school board's Even Start program. Mr. Turner could not provide an explanation of the payment to the school board auditors and refunded the money to the school board on January 20, 1998. In a written response to our inquiry, Mr. Turner's legal counsel stated, "he (Mr. Turner) understood this was payment of the state wide pay raise implemented in the school year 1996-97. Mr. Turner had not received this statewide pay raise through his regular payroll ..."

Contract Payments

During May and June 1997, Mr. Turner received two payments, one for \$4,950 and another for \$1,300 associated with the school board's LEARN program. These payments, which were in addition to his regular salary, (1) were not authorized by the school board as a whole, (2) lacked adequate documentation to support the hours that were claimed as worked, (3) appear to be for services required by Mr. Turner's regular employment, and (4) were paid with funds not intended for the services claimed.

\$4,950 Payment

On September 28, 1996, Mr. Turner and the school board entered into a service contract agreement related to the school board's LEARN program (funded by the Louisiana Department of Education) and, though it appears he did not perform the services specified in the contract, he was paid \$4,950. This contract called for Mr. Turner to provide services, at a rate of \$90 per hour, in addition to those required by his normal employment. Mr. Turner's school board salary at this time was approximately \$28 per hour. The contract specified that Mr. Turner was to provide 55 hours of specialized inservice training in discipline/classroom management, either serve as consultant or engage consultants to meet specified needs, and maintain participant attendance and evaluation records. Mr. Turner was paid \$4,950 by check dated June 13, 1997.

The contract was approved by Ms. Clarice Kenney in her capacity as LEARN Director. Ms. Kenney was the assistant superintendent and thus, Mr. Turner's subordinate.

We spoke with all of the individuals who were members of the school board during this time and were informed that they were not aware of this contract. Therefore, Mr. Turner's employer, the school board, did not authorize this payment.

Mr. Turner did not personally provide the inservice training specified in the contract. Rather, the instructional services were actually provided, at no expense to the school board, by the Louisiana Department of Education through its Region VIII Service Center. Ms. Ginger Merritt, Director of Region VIII Service Center, stated that Ms. Kenney arranged for the LEARN inservice training institutes. According to Ms. Merritt, Region VIII staff conducted classes on six separate days from March through June 1997.

Mr. Turner stated that he thought the payment was for the work that he did on the discipline policy. According to Mr. Turner, during the 1995-96 school year, the school board directed him to address the system's discipline policy. In a written response, Mr. Turner's legal counsel stated "... In September 1996, Mr. Turner began assembling and collecting documents and materials for revision and rewriting of the discipline policy manual under the LEARN grant."

According to Mr. Turner's job description, his duties include the initiation of systems of educational policy. Therefore, the revision and rewriting of the school board's discipline policy manual appears to be a requirement of Mr. Turner's regular employment and does not warrant additional compensation.

Work on the discipline policy differs from the work described in the contract. Mr. William Miller, State Director of the LEARN Program, stated that the writing of a disciplinary policy is not an allowable expenditure under the grant. On October 13, 1996, the Louisiana Department of Education requested reimbursement of the \$4,950 paid to Mr. Turner stating that "... the use of Mr. Turner as a paid consultant was not included in the project application, not discussed with external evaluators, or authorized for this project. His services to the project should have been within the scope of his official duties, and he should not have been paid as a consultant to the project."

In addition, the payment to Mr. Turner was incorrectly charged in the school board accounting records to the board's Even Start program rather than the LEARN program. The school board's auditor notified Mr. Turner that the payment had been erroneously made from the school board's Even Start program and advised Mr. Turner that the money should be refunded. Mr. Turner refunded \$4,950 to the board on November 13, 1997. Thereafter, the school board returned this amount to the Louisiana Department of Education.

\$1,000 Payment

On June 13, 1997, Mr. Turner received a \$1,000 check from the school board in addition to his regular salary. This payment was coded, in the school board's accounting records, to "LEARN teacher grant travel."

A time sheet for Mr. Turner was in the board's vendor files with a copy of the check. The time sheet shows 55 hours worked over four months at \$20 per hour, but it includes no specific dates, times, or services performed. The time sheet includes what purports to be Mr. Turner's signature.

Mrs. Kenney, Director of the LEARN grant, approved the time sheet as Mr. Turner's supervisor. An assistant superintendent, Mr. Kenney also fell under Mr. Turner's supervision.

Ms. Fitzgerald, office manager, stated that the time sheet was not prepared until the auditors began asking questions about payments to Mr. Turner. According to a statement provided by Mr. Turner's legal counsel, Mr. Turner assembled and collected data for the revision and rewriting of the discipline policy under the "LEARN" grant and attended related meetings and, though Mr. Turner did not keep contemporaneous time records, he worked more than 55 hours.

As previously stated, Mr. Turner's duties include the initiation of matters of educational policy. Duties related to the development of a discipline policy appear to be within the requirements of Mr. Turner's regular employment and do not warrant additional compensation.

We spoke with all of the individuals who were school board members at that time and were informed that the board was not aware of this payment to Mr. Turner. Therefore, this payment was not approved by the school board. Mr. Turner and Board Member Scott Meredith signed the check. According to Mr. Meredith, he signed the check after Mr. Turner and did not question its purpose.

Mr. Miller, State Director of the LEARN Program, stated that the 1996-97 LEARN grant was for the professional development of teachers, and expenditures made for writing the discipline policy are not allowed. On October 13, 1998, the Louisiana Department of Education requested that the school board reimburse the state of Louisiana this \$1,100.

Internal Revenue Service Form 1099 Not Filed

Title 26, United States Code, Section 6441, *et seq.*, requires that an employer file a Form 1099 for each person who receives non-employer payments of \$600 or more during the tax year. The school board did not file an IRS Form 1099 for the amounts paid to Mr. Turner as contract labor and travel/expense as required.

WAGES NOT PROPERLY REPORTED TO THE TEACHERS' RETIREMENT SYSTEM

From July 1, 1988, through June 30, 1997, the wages of Mr. James Turner were underreported to the Teachers' Retirement System by \$143,642.

From July 1, 1988, through June 30, 1997, the school board paid Mr. Turner wages and sales tax supplements totaling \$386,237 and an amount of supplemental compensation, in the form of travel and car expenses, of \$54,769 for total earnings of \$390,346. During this same period, the

school board reported Mr. Turner's earnings to the Teachers' Retirement System as \$218,864. The reports for four of these years were signed by Mr. Turner. As a result, the school board underreported Mr. Turner's actual earnings by \$10,642.

The Teachers' Retirement System requires that its members report their annual earnings subsequent to retirement. Annual earnings are used by the Teachers' Retirement System when computing a retiree's available benefit. R.S. 11:787 requires the school board to report Mr. Turner's annual earnings for each fiscal year subsequent to his retirement. R.S. 11:591 defines earnings as compensation earned during full normal working time and excludes allowances for expenses authorized and incurred as an incident to employment.

During the nine-year period of employment subsequent to Mr. Turner's retirement, Mr. Turner and the school board failed to report \$89,171 of regular salary payments to the Teachers' Retirement System. In addition, because the \$54,268 paid to Mr. Turner as travel and car expense was actually his PIP and an arbitrary amount and was not based on expenses incurred, those payments should have been reported to the Teachers' Retirement System as earnings.

Since Mr. Turner's actual earnings were not properly reported to the Teachers' Retirement System, Mr. Turner received retirement benefits that he was not entitled to receive during the period July 1988 through June 1997. As a result of the under-reporting of income to the retirement system, Mr. Turner retained \$48,217 that he would have had to refund had his correct salary been reported.

According to Mr. Turner, his car expense consisted of his PIP compensation (discussed in previous finding - Mr. Turner was not entitled to PIP compensation after his retirement) and an additional one hour of pay per day. He stated that the board agreed to pay one additional hour of pay for each workday. According to Mr. Turner, though the board directed that his sales tax supplement be paid as a component of his car expense, he continued to receive his sales tax supplement as part of his salary payments.

We were unable to find a resolution that authorized an additional hour of pay per day for Mr. Turner. Mr. Turner recommended that we talk to Mr. Bob Meredith and Mr. Herman Hyrd, both board members at the time this agreement supposedly took place. Neither Mr. Meredith nor Mr. Hyrd could recall such an agreement with Mr. Turner. It should be noted that an additional hour of pay per day at Mr. Turner's normal salary rate plus his PIP compensation far exceeds the amount paid to him as car expense. Either way, the car expense was earnings not reimbursement of expense and therefore should have been reported to the Teachers' Retirement System.

Mr. Turner stated that he reported the salary amounts as they were provided to him by the school board bookkeeper. According to Ms. Ann Fitzgerald, former office manager for the board, Mr. Turner directed her not to report all of his earnings to the Teachers' Retirement System, because it would reduce his benefits.

These actions indicate that the school board and/or Mr. Turner may have violated one or more of the following provisions of Louisiana law:

- R.S. 11:705, False Statement to Teachers' Retirement System
- R.S. 14:134, Malfeasance in Office
- R.S. 14:143, Public Contract Fraud
- R.S. 40:1481(A), Obligation Not to Misappropriate

We recommend that the school board implement policies and procedures to ensure that school board employees cannot cause themselves to receive payment to which they are not entitled. We recommend that the school board ensure that salaries are calculated on a consistent basis and report the actual earnings of retirees, including FIP and sales tax supplemental compensation, to the Teachers' Retirement System as required by law. We also recommend that the Teachers' Retirement System review this information and take appropriate action to recover excess benefits paid to Mr. Turner. We further recommend that the school board implement procedures to review all payments made to supervisory personnel. In addition, the school board should obtain an opinion from legal counsel as to the propriety of paying FIP compensation as a car expense.

We also recommend that the District Attorney for the Thirty-Seventh Judicial District of Louisiana review this matter and take appropriate legal action, to include seeking restitution.

Attachment I

Management's Response

Walter J. Rouse
 William H. Rouse
 William H. Rouse
 William H. Rouse

Walter J. Rouse
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December 16, 1998

Dr. Daniel G. Kyle
 Legislative Auditor
 P. O. Box 94397
 Baton Rouge, LA 70804-0397

Re: Investigative Report on the Caldwell Parish School Board

Dear Dr. Kyle:

Please consider this letter the written response of the Caldwell Parish School Board to the preliminary draft of your investigative report, which was received by this office on December 3, 1998.

I would like to note initially that the problems which ultimately led to the involvement of your office were discovered through an independent audit ordered by the School Board. When the School Board learned of possible accounting irregularities through that audit report, it authorized an expansion of the investigation by the independent auditing firm. That firm discontinued its work when your office began a similar investigation.

Your preliminary report concludes that, during a previous administration, two individuals may have paid themselves compensation to which they were not entitled. As you are undoubtedly aware, these two individuals are no longer associated with the School System. In addition, the School System has already implemented a number of operational changes designed to eliminate and/or avoid the kinds of accounting deficiencies noted in the audit report. These changes are outlined in Attachment I to your preliminary report.

Furthermore, the Caldwell Parish School Board has already requested the District Attorney to pursue legal action against any individuals who may have violated the law. Indeed, it is my understanding that, to assist him in his investigation, the District Attorney requested that your office become involved. The School Board appreciates any assistance you can provide the District Attorney in connection with this matter.

The School Board has also employed private counsel to review the matter to determine whether terminations are in order and to pursue recovery of any overpayments which may have been made to staff members. As previously mentioned, the two staff members referenced in your report resigned from the School System so termination actions were not required. Through private counsel, the Board has already filed a civil claim against its former Office Manager for recovery of the overpayments to her referenced in your report.

Walter J. Rouse
 William H. Rouse
 William H. Rouse
 William H. Rouse

Joseph Caldwell
 Jeffrey Brown
 Rebecca L. Turner
 Scott Simmons
 William G. Boyd

Word 1
 Word 2
 Word 3
 Word 4
 Word 5

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Wendy McWhorter Smith
 Mark New
 Stephanie
 Mary L. Taylor
 Barbara H. Johnson

Word 6
 Word 7
 Word 8
 Word 9
 Word 10

Dr. Daniel G. Kyle
 December 16, 1998
 Page 2

Legal action against the former Superintendent of Schools is also under consideration at this time and will be discussed with the School Board in the near future.

Finally, I must point out that the School System is not in a position at this time to verify the accuracy of the dollar amounts contained in your report. My staff and I worked cooperatively with your staff members to accumulate the information from which report conclusions were drawn, so I must assume that the dollar figures referenced therein are correct. Because of the cessation of work by the Board's independent auditor, however, I am not in a position to verify the accuracy of those amounts and I would like this response to so reflect.

Thank you for the opportunity to submit this additional response. If you have any questions about my comments herein, or if you need any additional information with regard to this matter, please feel free to contact this office.

Sincerely,



Martha T. Simons
 Superintendent
 Caldwell Parish School Board

Management Response 1:

The Caldwell Parish School Board now has three people employed in the bookkeeping department. Duties of those three employees are assigned so that the same person does not write the checks and reconcile the bank statement for that fund. One person writes payroll checks and a different person writes vendor checks. A new accounting system has been purchased and is being used. Quarterly fund histories are provided to the Executive Committee for review along with a revenue and expenditures report which provides a detailed listing of vendors and payments made to those vendors. Checks are in sequential order, and all accounted for including voids and checks which are not computer generated should be verified, by the Superintendent and the Executive Committee, to ensure posting to appropriate account. The Executive Committee of the Caldwell Parish School Board reviews all financial records quarterly and makes a report to the School Board. Finally in December of 1997 the School Board passed a resolution which requires School Board approval for any addition to the regular salary of any personnel. Additionally all Grants are approved by the School Board and authorization to pay stipends when allowed is requested and payment made only with detailed timesheets. All salaries are set by School Board resolution and School Board approved formula. All payments are made to personnel through payroll except reimbursements. The attorney for the School Board is present at all meetings and all executive sessions. No action is taken in executive session and all key votes on any resolution are recorded in the Board minutes which are published in the legal journal. The Caldwell Parish School Board requested the District Attorney review findings of the 96-97 audit and take appropriate legal actions. The Board also employed the law firm of Harrington and Still to serve as special counsel to represent the School Board in connection with personnel matters involving the results of this audit investigation.

Management Response 2:

Salaries of all personnel are set by School Board resolution and/or a School Board approved formula. A complete listing of all administrative salaries was provided the Board for review and will be done yearly. All retirees presently working have completed and submitted a return to work application to the Teachers Retirement System and a copy is kept locally. Retirees payroll history will be used in the reporting of earned compensation for all retirees. All payments made to employees other than reimbursements are made through payroll. School Board resolutions employing personnel now include salary and length of employment. School Board resolution also requires any additional salary be approved and appropriate records kept to verify salary pay. For 1997 a 1999 was filed on Mr. Turner for \$3,000, paid to him on vendor checks.

Attachment II

Legal Provisions

Legal Provisions

The following legal provisions are referred to in the Findings and Recommendations section of this report.

- R.S. 11:705 provides that false statement or falsification of records occurs when any person knowingly makes any false statement or falsifies or permits to be falsified any record or records of the Teachers' Retirement System in any attempt to defraud the system.
- R.S. 14:67 provides that theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other or the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.
- R.S. 14:72 provides that forgery is the false making or altering, with intent to defraud, of any signature to, or any part of, any writing purporting to have legal efficacy.
- R.S. 14:134 provides, in part, that malfeasance is committed when any public officer or public employee shall (1) intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; (2) intentionally perform any such duty in an unlawful manner; or (3) knowingly permit any other public officer or public employee, under his authority, to intentionally refuse or fail to perform any duty lawfully required of him or to perform any such duty in an unlawful manner.
- R.S. 14:138 provides, in part, that payroll fraud is committed when any public officer or public employee shall carry, cause to be carried, or permit to be carried, directly or indirectly, upon the employment list or payroll of his office, the name of any person as employee, or shall pay any employee, with knowledge that such employee is receiving payment or compensation for services not actually rendered by said employee or for services grossly inadequate for such payment or compensation.
- R.S. 14:149 provides that public contract fraud is committed when any public officer or employee shall use his power or position as such officer or employee to secure any expenditure of public funds to himself, or to any partnership to which he is a member, or to any corporation of which he is an officer, stockholder, or director.
- R.S. 42:1113 provides that no public servant, including any legislator and any appointed member of any board or commission and any member of a governing authority of a parish with a population of ten thousand or less, or member of such a public servant's immediate family, or legal entity in which he has a controlling interest shall bid on or enter into any contract, subcontract, or other transaction that is under the supervision or jurisdiction of the agency of such public servant.
- R.S. 42:1461(A) provides that officials, whether elected or appointed, by the act of accepting such office assume a personal obligation not to misappropriate, misapply, convert, misuse, or otherwise wrongfully take any funds, property or other thing of value belonging to the public entity in which they hold office.

